

NETWORK ENGAGEMENT OF PUBLIC DEBT MANAGERS IN AFRICA – 13 APRIL 2023

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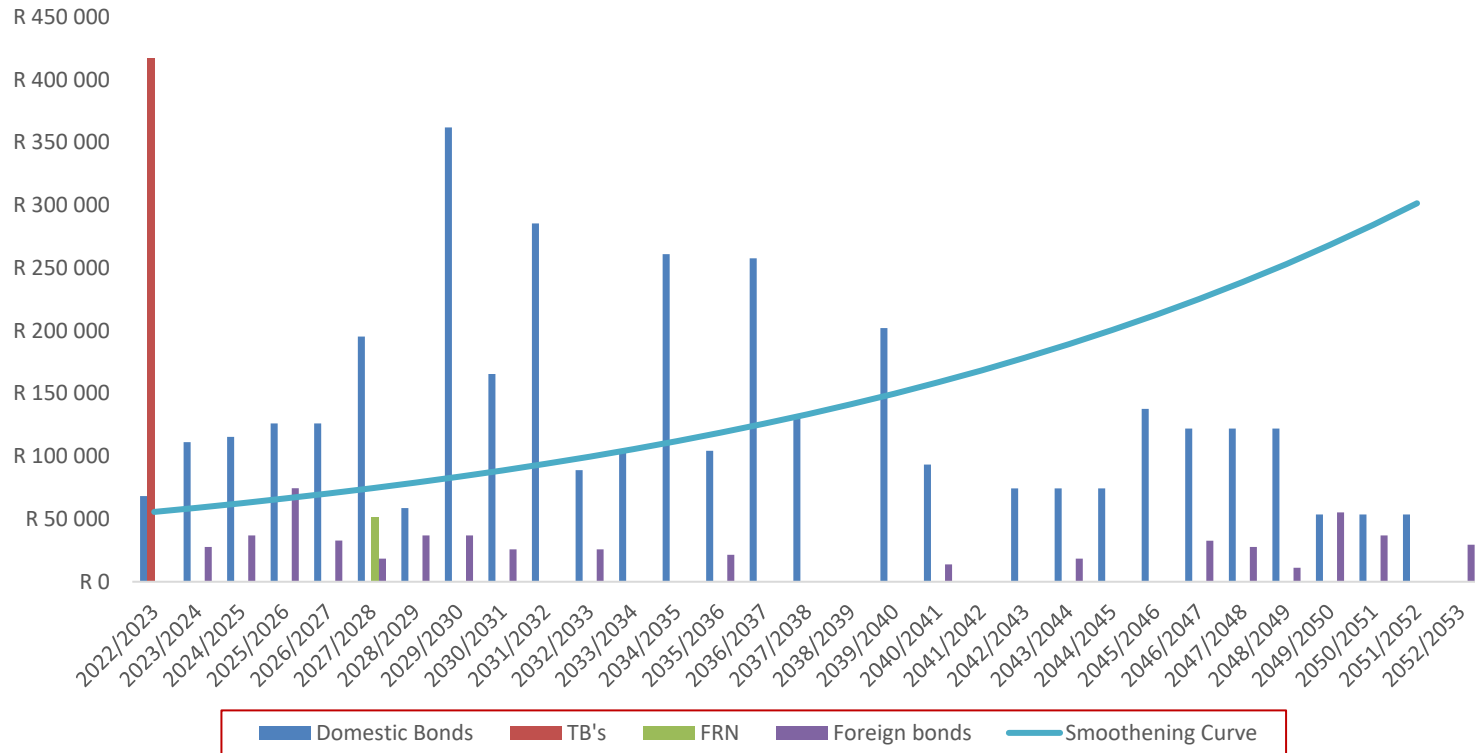
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SETTING THE SCENE

- Active debt management strategies/transactions – such as, debt buy backs and debt exchanges (DEXs) may be executed (voluntarily) in the normal course of developing the local currency debt market or forced upon (involuntarily) owing to looming debt distress and/or refinancing problems
- On average debt exchanges as cash neutral strategies are more prevalent than debt buy backs (cash utilization/draining strategies)
- DEXs are cash neutral, but they are not necessarily portfolio or duration neutral (i.e., tend to extend duration, hence add a cost margin to the expected borrowing cost)
- DEXs can be part of the annual borrowing plan (ABP) and help achieve the medium-term debt strategy (MTDS) and/or strategic benchmark indicators of roll-over and refinancing risk
- If DEXs become a permanent feature of the ABP, they will most likely add a cost while reducing refinancing risk (cost vs. risk trade-off)
- But the consistency of featuring DEXs in the ABP means debt transparency to the debt market, which arguably may or may not reduce the maturity (risk) premium.

SOUTH AFRICA SMOOTH CASH REDEMPTION CURVE

Maturity Profile



- Government Bond Switch (Exchange) Program has been successful in managing refinancing risk during period of protracted weak economic growth
- Since the start of the debt exchange (switch) programme in February 2015, ZAR254.5 billion has been switched out of several shorter-dated bonds to longer-dated bonds
- The reviewed debt exchange (bond switch) programme in 2021/22, aims to provide transparency and reduce speculation around the switch auctions. Part of the programme involve uploading the switch auction calendar and terms and conditions on to National Treasury's investor relations website
- In 2021/22 a total of 13 switch auctions were conducted totaling ZAR48 billion from the shorter-dated bond (R2023 bond)

Source: National Treasury Debt Management Report (2021/22)

QUESTIONS TO FRAME DISCUSSIONS

How do African governments use active debt management strategies/transactions, especially switches or debt exchanges – where shorter-dated bonds about to redeem are exchanged for longer-dated bonds to manage refinancing risk?

- Are these exchange operations (or switches and buybacks) used as a cash management tool, debt management tool, risk management tool, or all?
- Can these active debt management techniques apply uniformly to both external and domestic currency debt?

QUESTIONS TO FRAME DISCUSSIONS-CONT'

Portfolio-based indicators of refinancing risk are within control of and can easily be implemented (with the necessary approvals) by Debt Managers as early warning signs:

- What are some of these indicators and how well do they instill discipline and foster closer working between various units in Debt Management Offices in achieving the common debt management objective(s)?

Thank you